

**United Dairymen of Arizona (UDA)**  
**Response to Issues Relating To The**  
**Environmental Portfolio Standard**  
**April 5, 2004**

United Dairymen of Arizona (“UDA”) is a member-based agricultural milk marketing cooperative. UDA’ membership consists of approximately 90 producers, milking over 120,000 dairy cows and representing the majority of the milk produced in Arizona. Collectively, our members generate over \$750,000,000 in annual sales and employ approximately 2,500 Arizonians.

As a group of potential stakeholders in the EPS process, we represent an identifiable and viable source of renewable energy. The livestock we raise and the production practices we utilize are capable of capturing enough renewable manure resources to produce over 3 Billion Btus per day of methane-rich biogas. Using commercially available and reliable technology, this biogas translates into an estimated 9 to 12 MW of generation capacity. Technology which is demonstrated world-wide for converting manure resources into energy typically operates in a 24 hour per day / 7 day per week mode and achieves capacity factors in excess of 85%.

In general, UDA and its membership support responsible environmental stewardship including the development of renewable energy resources in Arizona. We applaud the efforts and leadership of the Arizona Corporation Commission (“ACC”) has taken in establishing the Environmental Portfolio Standard (“EPS”) process.

In response to the February 17, 2004 letter from Ray Williamson addressed to Stakeholders in the EPS process, UDA respectfully submits the following comments addressing the seven identified issues:

**Issue 1: Increasing EPS funding levels**

UDA is not opposed to reasonable increases in EPS funding levels provided adequate measures are being taken to leverage customer-based and customer-owned systems. UDA is aware that representations have been made by the Load Service Entities (LSE) and in the Cost Evaluation Working Group (“CEWG”) Report (dated June 30, 2003) that sufficient funding is not available to meet the renewable energy goals set forth in the EPS. We do not have an opinion as to what level of funding is required or necessary to meet the EPS goals.

However, as an organization representing individual utility rate payers and potential renewable energy generators and stakeholders, it is our opinion that the LSEs currently are not taking adequate or sufficient steps to leverage EPS surcharges by incorporating customer buy-down programs or partnering opportunities with rate payer owned or based projects. UDA encourages the ACC to investigate methods or remedies which can be used to facilitate increased cooperation between LSEs and custom-owned or based systems.

**Issue 2: Elimination of the EPS expiration date**

UDA supports an elimination of the expiration date of the EPS rule. UDA’ individual farmer members represent opportunities to bring valuable renewable energy systems to Arizona in the

50 kW to 500 kW capacity range. Collective investments in these biogas-to-energy systems represent capital commitments in the \$15 to \$20 million range, with life cycles of 10 to 20 years. Obtaining cost effective project financing is key to building this type of renewable generation infrastructure. In most cases, the renewable power generated from these systems will exceed the load demands of the individual dairy farm operations and excess power will need to be sold back to the LSE. Our member's ability to negotiate power purchase agreements with the LSEs beyond the 2012 expiration date is an important part of developing these renewable resources for Arizona.

### **Issue 3: Restoration of DSM funding**

UDA has not had an opportunity to discuss this issue with its key membership and has no opinion on this issue at this time.

### **Issue 4: Allocation of funding among various technologies**

As it relates to Issue 6 and the static percentages, UDA strongly supports a more equitable and balanced allocation of funding among the various technologies. We encourage the ACC to review and reconsider the static percentage requirements under Issue 6 and develop a process that achieves a better balanced allocation of EPS surcharges.

As previously stated, UDA supports the development of renewable energy resources and the environmental benefits and good stewardship they provide. UDA clearly recognizes solar as Arizona's greatest and most abundant renewable resource, and supports ACC's premise to emphasize its deployment.

However, our primary position is to support an EPS process that balances two fundamental goals; 1) maximize the displacement of fossil fuel consumption in Arizona, and 2) assist solar-based technologies in efforts to foster measurable advancements in their future cost effectiveness as part of our state's resource mix. UDA believes that the current EPS process and direction the LSEs are taking is not fairly balanced between the development of viable, commercially available renewable energy technologies and the tilted emphasis on solar PV technologies. While the EPS process has established a set 60/40 percentage split, the LSEs are allocating a far higher percentage of funding to the 60% solar PV requirement; all to the detriment of building real and substantial, low-cost, renewable megawatt capacity.

### **Issue 5: Should Arizona increase its surcharges & portfolio percentages**

UDA believes that Arizona is far too reliant on imported fossil fuels to power our economy and that sufficient renewable resources exist within our state borders to increase the EPS percentage beyond the 1.1%. In principle, UDA also endorses an increase in the EPS surcharges. Here again, our position for increasing the portfolio surcharges and percentages is based on the develop and implementation of an equitable and balanced EPS process.

We encourage the ACC to review the balance between leveraging capital from customer-based systems and so-called expensed utility-based systems and the balance between implementing lower-cost "other environmentally-friendly" technologies and

## **Issue 6: Review whether the approach of static percentages is still justified**

UDA takes the position that the static percentages used in the EPS process do not best service Arizona rate payers or the EPS stakeholders group as a whole. UDA believes that substantial renewable energy infrastructure opportunities are being passed over due to the imposed percentage goals. The high 60% solar PV requirement is impeding the progress of biogas-to-energy systems and other viable, lower-cost renewable technologies in Arizona.

As a potential solution, UDA recommends that the ACC might consider placing a static allocation on percentages for funding floors. For example, instead of mandating that 60% of the 1.1% in renewable kWhs be developed in solar PV, the ACC might mandate that the LSEs spend no less than 60% of their EPS surcharges in developing the best solar PV solutions. UDA believes this might be a remedy to better balance the EPS process between developing maximum renewable megawatts and the ACC's desire to support solar-based technologies.

In the end, UDA recommends that the ACC modify the EPS rule in such a way that strives to maximize the overall EPS percentage with a proportionally lower program cost. In other words, the ACC should encourage the LSEs in developing a more equitable balance between \$0.06 per kWh systems and \$0.16 per kWh systems.

## **Issue 7: Consideration of inclusion of new and emerging technologies**

UDA strongly supports the inclusion of new and emerging technologies in the framework of the EPS. Developing core technologies, improving system efficiencies and advancing new science, technology and engineering breakthroughs are fundamental premises to moving renewable energy into our main stream resource mix. To this end, UDA also do not agree with the ultimate removal of allowances for R&D systems in the general static percentages under R14-2-1618.B.3. a. – c. We believe that there is a never ending need for improvement and allowing for modest flexibility in R&D support is part of a well rounded, long term EPS process.